ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

16 January 2017

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

THE CREDIT CHANNEL

ECONOMIC OVERVIEW

The recent increases in mortgage and deposit rates are a clear result of higher wholesale rates, a turn in the credit cycle and the need for banks to close a funding gap. Upside pressure on these rates is likely to persist. At a time when a number of other factors are pointing to the possibility of the RBNZ needing to contemplate policy tightening later this year (strong growth momentum, capacity strains, global reflation and a turn in the domestic inflation cycle), shifts in retail interest rates and renewed NZD strength buy the RBNZ a little more time – although as we noted last week, much will hinge on how households behave. This week, the QSBO should be consistent with a theme of strong growth but intensifying capacity pressures. Dairy prices are expected to remain stable and house price growth should soften further. Our consumer confidence series kicks off the 2017 domestic economic dataflow as the first piece of data relating to the New Year.

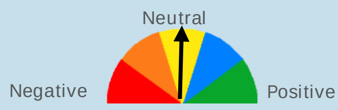
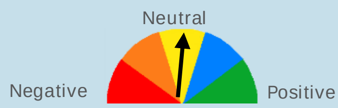
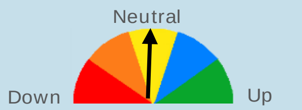
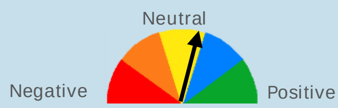
INTEREST RATE STRATEGY

Short-end rate remain close to levels prevailing prior to Christmas. We had initially been of the view that the rise in short-end rates was a capitulation episode that would not persist, and with a hike priced in by the end of the year, we remain partly of that view. But as the data tempo remains strong (and we expect this to persist), so too does the risk of an OCR hike earlier than forecast. So while the term structure of rates sits above what's implied by our forecasts, we can't see them falling back materially for now. Retail mortgage rates are on the rise and the TWI is back around ~78.5 again. These factors buy the RBNZ time, but markets are in no mood to use them to drive what's priced in back to something more neutral. Long-end rates look set to grind higher as US rates rise on policy normalisation there, and as the local market gears up for policy normalisation in years to come.

CURRENCY STRATEGY

The global environment is looking more NZD and commodity bloc supportive at the same time local credentials remain strong. This combination would normally leave us more bullish the NZD. However, we find our views on the NZD tempered still; we are backing H2 2016 ranges to be a feature of early 2017. We continue to hold a more cautious view towards the global scene and view the local rates market as getting a little ahead of itself pushing a potential Q3 lift in the OCR (65% priced).

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.6% for 2017 Q3	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify.	
CPI	1.7% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

The recent increases in mortgage and deposit rates are a clear result of higher wholesale rates, a turn in the credit cycle and the need for banks to close a funding gap. Upside pressure on these rates is likely to persist. At a time when a number of other factors are pointing to the possibility of the RBNZ needing to contemplate policy tightening later this year (strong growth momentum, capacity strains, global reflation and a turn in the domestic inflation cycle), shifts in retail interest rates and renewed NZD strength buy the RBNZ a little more time – although as we noted last week, much will hinge on how households behave. This week, the QSBO should be consistent with a theme of strong growth but intensifying capacity pressures. Dairy prices are expected to remain stable and house price growth should soften further. Our consumer confidence series kicks off the 2017 domestic economic dataflow as the first piece of data relating to the New Year.

FORTHCOMING EVENTS

REINZ Housing Market Statistics – December (9:30am, Tuesday, 17 January). Momentum has cooled of late and while we are not expecting weak outcomes, this softer momentum is likely to have persisted.

NZIER QSBO – Q4 (10:00am, Tuesday, 17 January). The figures should confirm the economy ended the year with decent momentum, although with intensifying capacity and resource pressures.

GlobalDairyTrade Auction (early am, Wednesday). Prices are likely to continue consolidating after strong gains.

BNZ-BusinessNZ PMI – Dec (10:30am, Thursday, 19 January). While the index has eased over recent months, we expect it to hold at a respectable level.

Building Consents Issued – Nov (10:45am, Thursday, 19 January). We are inclined to pencil in a further modest lift, but we are aware of capacity and capital constraints capping the upside.

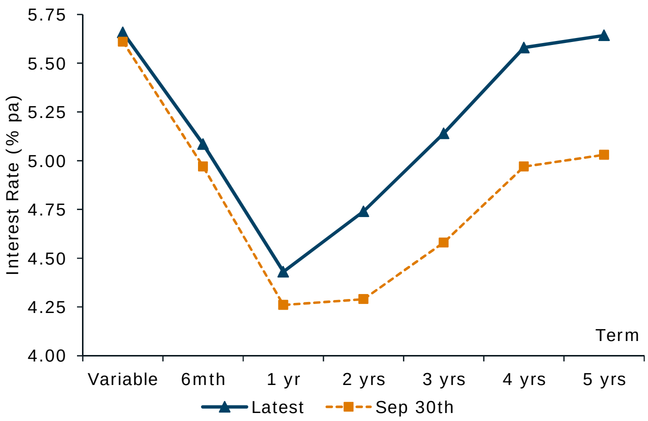
ANZ-Roy Morgan Consumer Confidence – Jan (1:00pm, Thursday 19 January).

BNZ-BusinessNZ PSI – Dec (10:30am, Tuesday, 24 January). At 56.3 in November, services sector activity continues to chug. We'd be surprised if the message changes much any time soon.

WHAT'S THE VIEW?

Domestic mortgage and deposit rates are on the ascent. Since the end of September, average fixed mortgage rates across the major lenders have increased by 0.1-0.6%pts. Some lenders have even lifted their floating mortgage rates. Additionally, we estimate that term deposit rates (longer than 12 months) have increased by roughly a similar magnitude over the same period.

FIGURE 1: MORTGAGE RATES – AVERAGE BEST RATE OFFERED BY BIG-4 BANKS



Source: ANZ, interest.co.nz

While some of the movement can be put down to higher wholesale rates and shifting perception towards the RBNZ (from potentially cutting to hiking), the moves, especially most recently, have occurred largely independently of shifts in wholesale interest rates. In fact, local swap rates fell over the holiday period, largely following the retracement off highs seen in global interest rates more generally. This disconnect will partly reflect timing (swap rates spiked pre-Christmas) and typical lags at play (mortgage rates do not bounce around as quickly or reactively as petrol prices for instance) but also reflects other influences.

In particular, higher retail interest rates also reflect the funding gap facing banks. We noted extensively over the latter part of 2016 that the large gap between bank deposit and credit growth was unsustainable, and that without a further ramping up of banks' offshore borrowing (which would not be desirable from a financial stability perspective), higher deposit rates and increased credit rationing would result. We are now clearly seeing that. And while RBNZ data from November showed the gap between credit and deposit growth has now started to narrow, it is still wide. That flags more pressure on retail interest rates to rise to a) attract more deposits and b) slow lending.

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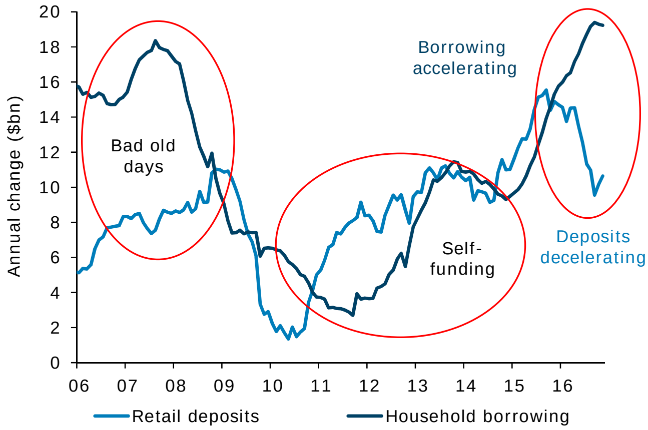
FIGURE 2: BANK FUNDING AND CLAIMS GROWTH

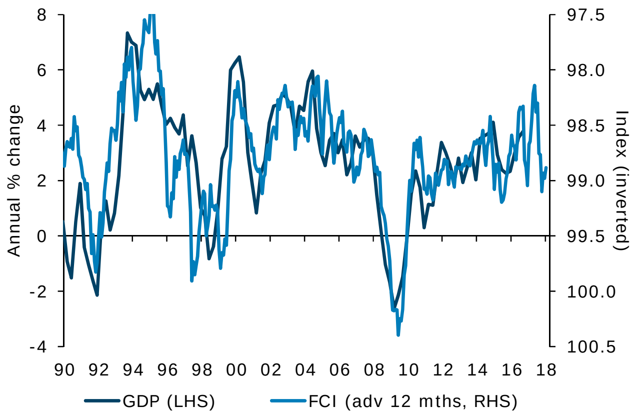


Source: ANZ, RBNZ

This theme manifests in our forecasts in a number of different ways:

- **Slower credit growth will dampen demand.** Current GDP growth of 3½-4% is forecast to ease towards 3% over the course of 2017 as credit growth cools, and capacity pressures and modestly tighter financial conditions bite – with higher interest rates contributing to the latter.

FIGURE 3: FINANCIAL CONDITIONS AND GDP



Source: ANZ, Statistics NZ

- **It takes pressure off the RBNZ to lift the OCR in 2017;** banks are implicitly doing the central bank's job for it.
- **Less credit will constrain the supply-side response in the housing arena.** There is no free lunch! **That leaves us a little wary about the recent housing market slow-down extending too far, as shortages will intensify.**
- **That said, we nonetheless expect the recent softening in housing market momentum to persist.** That seems like a bold statement based on recent history and the fact that a housing shortage remains. And we are certainly not expecting a significant weakening in conditions from here. But the reversal of what has been a key tailwind (falling mortgage rates), together with prudential restrictions, and a likely more active Government response lifting supply (watch this space), is a significant combined set of headwinds in our eyes. Market activity is unlikely to get back to its dizzy mid-2016 heights in a hurry.
- **Recent household spending exuberance will prove to be temporary.** As we discussed in last week's Market Focus, we are assuming that the household restraint evident post-GFC is now the norm and that the sharp acceleration in consumption growth and deterioration in household saving seen over the middle of last year will not persist. Higher lending and deposit rates (shifting the pendulum towards saving as opposed to spending) should help assist with that. Supporting our case, the latest ECT figures pointed to a softer end to the year for household consumption than was seen over Q2 and Q3.

RBNZ officials should feel quietly satisfied watching retail rates move up. That takes pressure off them to do the same with the OCR.

However, there is a growing inevitability about the OCR moving up and the risks are pointing to sooner. We are seeing:

- Growing capacity pressures (the 16th consecutive monthly increase in our job ads series suggest the unemployment rate will continue to fall, even assuming still-strong labour supply growth);
- Broadening domestic inflation pressures (hinted at by our latest Monthly Inflation Gauge);
- A turn in the global inflation cycle (annual Chinese PPI inflation has hit its highest level since 2011);
- All at the same time as ongoing strong activity growth.

All up, there are clearly factors emerging that suggest an OCR at current levels will not remain the case indefinitely (or even as long as the RBNZ projected in its November *MPS*).

Turning to the week ahead, the NZIER Quarterly Survey of Business Opinion for Q4 is likely to confirm the economy ended the year with good momentum and with more of the same on offer for 2017. Mirroring our monthly Business Outlook survey, we expect to see the likes of headline confidence and firms' experienced and expected domestic trade activity measures remain at broadly similar levels as seen in Q3. Confidence hit a 2½ year

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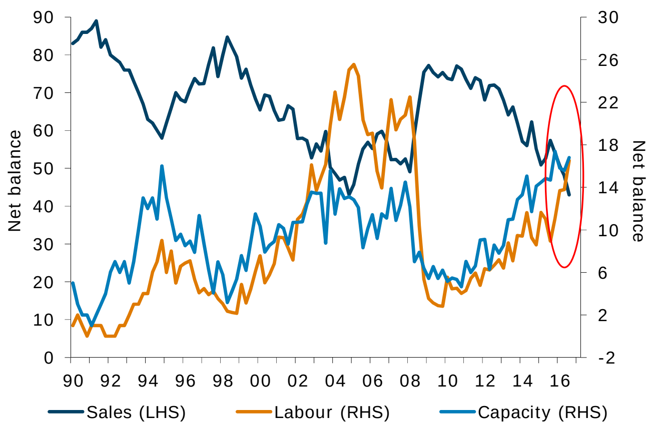
high in Q3 and firms reported the strongest domestic trading conditions (in a net sense) since mid-2002. At face value, the figures suggest GDP growth will accelerate towards 4½% early this year, although as this would not be inconsistent with the likes of our Confidence Composite Gauge, we'd hardly view it as 'new news'.

We expect to see further evidence of capacity pressures. An economy cannot grow at above-trend rates for long without generating increased strains on available resources. We already believe the output gap has turned positive and the unemployment rate has fallen below our current spot estimate of NAIRU. While capacity utilisation (CUBO) did (surprisingly) ease in Q3, we saw firms report it was the hardest to find skilled staff since 2007. Additionally, a net 17% stated that labour was their biggest constraint (the highest since 2008). A net 17% of firms also reported capacity to be their biggest constraint, which is well above the average of the past five years. These figures contrast markedly with those stating 'sales' are their biggest constraint, which although it is higher than the other factors, at a net 43%, is the lowest it has been since 1974!

FIGURE 4: FACTOR CONSTRAINTS

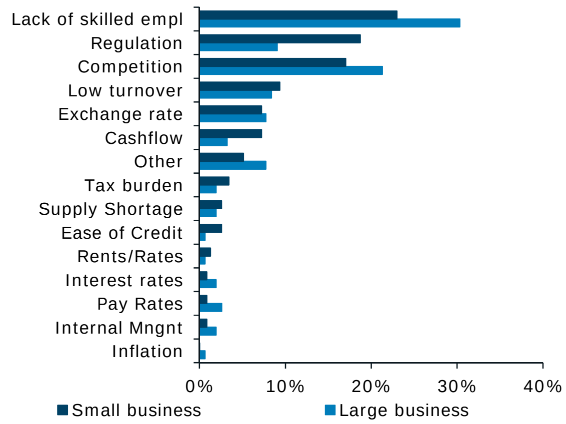


Source: ANZ, NZIER

Our Small Business Monitor (released last Friday) reported skill shortages as the biggest constraint facing businesses (figure 5). That's another reason activity growth will slow in 2017.

It is only a matter of time before price tension follows. Despite the evidence of capacity strains in Q3, a net 4% of firms actually *lowered* their prices over the quarter, highlighting that a number of other factors (structural and cyclical) are influencing the inflation process at present. And while many of these forces are likely to persist, we do note that within our Business Outlook survey a net 26% of firms intended to raise their prices, which is the highest since March 2015. Higher oil prices will also help change pricing perceptions. It therefore wouldn't be surprising if QSBO pricing measures lifted too.

FIGURE 5: BIGGEST PROBLEM FACED, BY FIRM SIZE



Source: ANZ

With regards to the next GDT auction, little change in prices is expected, with NZX futures pointing to a 1% gain for wholemilk powder (WMP) and no change for GDT-TWI.

The last auction saw WMP prices pull back in line with the alternative product stream of SMP/milkfat. This has reduced the incentive to produce more WMP at the expense of SMP/milkfat. The latest Algerian government tender saw similar prices struck to those on the GDT platform for WMP. One reason New Zealand product could gain a bit of support at this week's auction is the fact that GDT product is around $100/t cheaper than equivalent US and European product at present. Beyond this, the market looks largely in equilibrium for WMP at present and seems to be awaiting more supply information, especially on how farmers respond to higher farm-gate prices and the strength of seasonal uptick in Chinese and European supply over the first half of 2016.

Elsewhere, New Zealand-sourced SMP remains at a significant premium to US and European sourced product. The European Commission has continued to try to tender some of its intervention stocks, but the received offers were again too low, with all bids rejected (the highest bid being US$2,080/t). The latest Algerian tender saw prices struck that are similar to current offer prices in the US and Europe (US$2,300-$2,350/t). All this suggests GDT-sourced product will struggle to push higher from its current starting point of US$2,660/t. In the milkfat market, New Zealand-sourced butter remains the cheapest global source, but this has been the case for some time.

All up, current indicators point to a farm-gate milk price slightly north of our $6.25/kg MS

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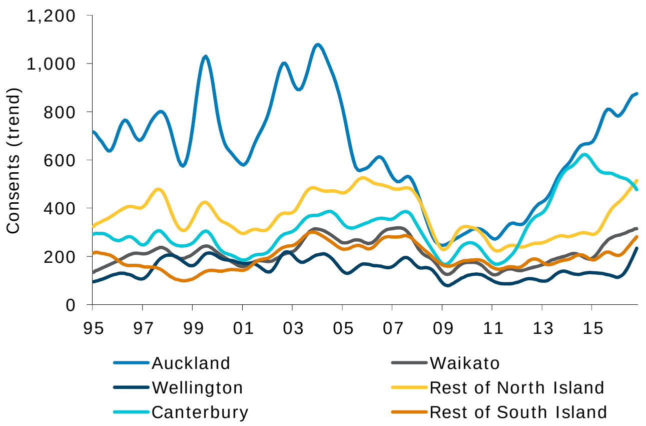
forecast. The first port of call following any forecast upgrade to the milk price will be a repayment of Fonterra loans that were offered during the downturn, which will cap cash flow and discretionary spending. This increasingly looks like it will come out of the deferred payments later in the year.

While our inclination for the November building consent figures is to pencil in another modest increase following October's 2.6% m/m lift, factors that could cap the upside are becoming increasingly evident. Certainly our view is that issuance will continue to trend modestly higher over time, given positive tailwinds in the form of demographic demand, low interest rates and the relative price signals between existing and new buildings. However, we doubt this will occur in a linear fashion, with capacity constraints and a tightening in credit availability certainly factors of which to be mindful. These issues already look to be having an influence, with Statistics NZ's measure of the underlying trend falling for the first time in close to a year in October.

FIGURE 6: TREND NUMBER OF DWELLING CONSENTS



Source: ANZ, Statistics NZ

Our ANZ-Roy Morgan Consumer Confidence data for January is the first piece of domestic data relating to the New Year. Consumers certainly ended 2016 in reasonable heart. While headline confidence did ease 3 points in December, it was a marginal tweak in the context of an upward trend in sentiment over the previous 18 months. In fact, the level in December was the second-highest result over the course of 2016. It is certainly still consistent with households feeling happy to continue spending, which over the middle of 2016 accelerated sharply, even in per capita terms.

Finally, the BusinessNZ manufacturing and services activity measures round out the data week. We'd be surprised if they showed anything other than a decent activity message.

Ironically, the local manufacturing PMI has eased over recent months at the same time as global PMI indices have increased (the JP Morgan Global PMI rose to 52.7 in December, the highest since early 2014). However, at 54.4, it is still pointing to outperformance and we believe that will remain the case for some time yet. Conversely, the PSI at 56.3 has remained elevated, and while altered bank behaviour and the turn in the credit cycle could have some influence, again we are not expecting much in the way of change in this solid picture.

LOCAL DATA

ANZ Job Advertisements – December. Job ads rose 1.6% m/m, to be 19% higher than a year ago (3-month average).

ANZ Truckometer – December. The Heavy Traffic Index eased 0.1% m/m, while the Light Traffic Index rose 0.1% m/m.

ANZ Commodity Price Index – December. The index rose 0.7% m/m, to be 19% higher over the course of the year.

Electronic Card Transactions – December. Total retail spending eased 0.1% m/m, with core spending falling 0.8% m/m.

ANZ Monthly Inflation Gauge – December. The Gauge rose 0.3% m/m, lifting annual inflation to 2.3%.

Food Price Index – December. Prices fell 0.8% m/m, to be 1.3% lower over the quarter.

INTEREST RATE STRATEGY

SUMMARY

Short-end rate remain close to levels prevailing prior to Christmas. We had initially been of the view that the rise in short-end rates was a capitulation episode that would not persist, and with a hike priced in by the end of the year, we remain partly of that view. But as the data tempo remains strong (and we expect this to persist), so too does the risk of an OCR hike earlier than forecast. So while the term structure of rates sits above what's implied by our forecasts, we can't see them falling back materially for now. Retail mortgage rates are on the rise and the TWI is back around ~78.5 again. These factors buy the RBNZ time, but markets are in no mood to use them to drive what's priced in back to something more neutral. Long-end rates look set to grind higher as US rates rise on policy normalisation there, and as the local market gears up for policy normalisation in years to come.

THEMES

- Short end rates have stabilised after their pre-holiday move higher. Comparing today's levels to those prevailing the week before Christmas masks a huge spike higher, but we believe the retracement off extreme highs is now complete, with pay-side flow the dominant short-end flow.
- Despite renewed TWI strength and large jumps in retail mortgage and TD rates that will help cool an already-slowing housing market, our expectation is that the risk of earlier OCR hikes will be at front of mind, superseding carry considerations.
- US markets are pricing in roughly two Fed hikes by year-end, but "Fedspeak" and the Fed's dot plot projections suggest three is more likely. Political wobbles aside, if US data continues to hold up, the risk is we see bond yields continue to track higher, with NZ long-end rates following suit.
- Curve steepening remains a key theme, especially with the short end already fully priced and US rates having retraced lower.

MONETARY POLICY AND SHORT END

Short-end rates have retreated back to levels close to those prevailing before Christmas. But this masks a massive move that saw the bellwether 2 year swap spike to a high of ~2.7%, after which it retraced back to its current level of ~2.4%.

Even at current levels we believe the short end remains "fully priced" and thus somewhat elevated (vis-à-vis our OCR forecasts). **However, given the market's tendency to extrapolate trends** (which means unwinding excessive easing and moving to price in tightening); **the risk of earlier OCR hikes** implied by activity and capacity data; **and the lop-sided nature of flow, we doubt we will see the 2 year trade much below 2.4%** (or perhaps 2.3% at a stretch). Higher retail rates and TWI strength are restraining factors for the RBNZ, but ironically, higher retail rates also generate significant pay-side flow potential as mortgage books look to hedge flow. So **while there is an air of capitulation in markets, unlike late last year, we don't think it will bow down to carry considerations.** In combination with strong dataflow, this leaves us cautious.

GLOBAL MARKETS AND LONG END

In contrast to the short end, US Treasury yields and local long-end rates are a touch lower than they were before Christmas, having also retraced lower after an earlier move higher. **We expect US bond yields to rise, albeit in a haphazard fashion. This is consistent with our "muddle through" thematic, with the gradual trend higher (fuelled by gradual Fed tightening and an improving data backdrop) punctuated by retracement and volatility on the back of political uncertainty and other "black swans".** The "Trump trade" has been embraced, and markets have come a long way, but if the Fed follows through with forecast rate hikes, bond yields do need to continue pushing higher, steepening the curve.

STRATEGY

Investors: Our **preference for being short duration** remains in place. Curve steepening is expected, this time driven by the long end. **Rising inflation risks suggest that linkers are better value than nominals.**

Borrowers: BKBM is at a record low, but that's cold comfort with term interest rates biased higher. **We believe it makes sense to add to hedges.** But with volatility expected, we prefer to hedge on dips at pre-specified targets. **Liquidity conditions are set to improve from March.**

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/ bearish	The short end is technically elevated compared to our forecasts, but the lop-sided nature of flow (and the risk of a pick-up in mortgage flow) leaves us more circumspect. 2yr unlikely to go much below ~2.35%.
Long end	Neutral/ bearish	Will continue grinding higher as the Fed steps up the pace of tightening this year, and on improving US data flow and lifting inflation risks in NZ. But politics and other risks suggest a muddle-through gradual trend up.
Yield Curve	Biased steeper	Bear steepener driven by the long end. Unlikely to get much assistance from the short end.
Geographic spreads	Neutral/ narrower	Divergent policy settings should help support NZ on a spread, as will a seasonal reduction in nominal NZGS supply. However, likely to be offset to an extent by flows emanating from defensive duration shortening.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI to remain elevated with NZD particularly strong vs. AUD/EUR/Asia. Will helps keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The global environment is looking more NZD and commodity bloc supportive at the same time local credentials remain strong. This combination would normally leave us more bullish the NZD. However, we find our views on the NZD tempered still; we are backing H2 2016 ranges to be a feature of early 2017. We continue to hold a more cautious view towards the global scene and view the local rates market as getting a little ahead of itself pushing a potential Q3 lift in the OCR (65% priced).

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔/↑	Local and global data pulse supports	Firmer USD bias ultimately wins
NZD/AUD	↔/↓	Price action favours AUD for now	Headed towards 0.93 by mid-year
NZD/EUR	↔/↑	Politics not euro supportive	Divided outlooks
NZD/GBP	↔/↑	Near term Brexit risks elevated	Brexit execution woes weighing
NZD/JPY	↔	Neutral	USD dictating USD/JPY higher

THEMES AND RISKS

- The global picture continues to improve with PMIs tracking up. That's actually NZD and commodity bloc supportive.
- Liquidity remains ample and volatility contained.
- Global and local inflation pulse continues to firm.
- Interest rate markets have shifted from pricing OCR cuts to pricing hikes, New Zealand's fiscal credentials are good, and the Government here is also lifting infrastructure investment.

ASSESSMENT

The global environment is looking more NZD and commodity bloc supportive.

- We continue to see signs of improvement across PMIs around the globe along with a pick-up in prospects and trade flows across the emerging market space. While the US economic story is well understood, economic recovery is permeating through Europe.
- Commodity prices have firmed.
- Volatility has been tame.
- Liquidity has not diminished, which would threaten the hunt for yield.

Local credentials also remain in place.

- GDP growth remains strong, in a 3.5-4% range. There is little let-up in the forward-looking data pulse and we expect upcoming data, including this week's QSBO, to flag more of the same.
- Economic credibility in the fiscal arena (and capacity to crank it up – over and above investment spending plans announced in December) – an emerging differentiating factor.
- The continued allure of yield.
- A firming terms of trade courtesy of a sharp rebound in dairy prices.

This combination would normally leave us more bullish the NZD, particularly when valuation models do not show the kiwi at extremes and external balance measures such as the current account remain in check at -2.9% of GDP.

However, we find our views towards the NZD tempered still; we are backing H2 2016 ranges to be a feature of early 2017.

It is highly questionable whether the global backdrop will remain so supportive in an environment of political fickleness, high leverage and where rising interest rates must eventually translate into less liquidity and pressure on asset valuations.

While we have some sympathy for the NZ rates market pushing a 2017 lift in the OCR, **the tightening in financial conditions via the credit channel of monetary policy** (refer page 2 and 3) **lessens pressure on the RBNZ to act.** The local growth portrait is also expected to soften a little as 2017 progresses. Market rate hike expectations now sit about six months ahead of our own, with the first hike priced in by around November.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↓	Fair value is 0.93
Yield	↔	Risk of early OCR hikes being priced in
Commodities	↔	Good for both
Data	↔/↑	Data pulse still stronger in NZ
Techs	↔/↓	Break of up-trend last week
Sentiment	↔	Oscillating
Other	↔/↑	Australia's fiscal numbers and triple-A rating under the spotlight
On balance	↔	**Neutral, to remain elevated in 2017**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair value estimate of ~0.75
Yield	↔/↓	Too much tightening priced in here, arguably not enough in the US
Commodities	↔/↑	ToT have based, a key leg of support
Risk aversion	↔	Has potential to add to volatility
Data	↔/↓	Data flow solid in both countries. NZ will slow in 2017 while the US picks up
Techs	↔	Break back above 0.70 significant
Other	↔/↓	USD becoming a bigger driver
On balance	↔	**Elevated, rather than higher**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Jan	UK	Rightmove House Prices MoM - Jan	--	-2.1%	13:01
	UK	Rightmove House Prices YoY - Jan	--	3.4%	13:01
	EC	Trade Balance SA - Nov	€20.8B	€19.7B	23:00
	EC	Trade Balance NSA - Nov	€24.3B	€20.1B	23:00
17-Jan	NZ	REINZ House Sales YoY - Dec	--	-5.9%	09:30
	NZ	NZIER Business Opinion Survey - Q4	--	25.7	10:00
	AU	ANZ-RM Consumer Confidence Index - 15-Jan	--	120.1	11:30
	AU	Home Loans MoM - Nov	0.0%	-0.8%	13:30
	AU	Investment Lending - Nov	--	0.7%	13:30
	AU	Owner-Occupier Loan Value MoM - Nov	--	-0.8%	13:30
	AU	New Motor Vehicle Sales MoM - Dec	--	-0.6%	13:30
	AU	New Motor Vehicle Sales YoY - Dec	--	-1.1%	13:30
	UK	CPI MoM - Dec	0.3%	0.2%	22:30
	UK	CPI YoY - Dec	1.4%	1.2%	22:30
	UK	CPI Core YoY - Dec	1.4%	1.4%	22:30
	UK	RPI MoM - Dec	0.4%	0.3%	22:30
	UK	RPI YoY - Dec	2.3%	2.2%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - Dec	2.5%	2.5%	22:30
	UK	PPI Input NSA MoM - Dec	2.4%	-1.1%	22:30
	UK	PPI Input NSA YoY - Dec	15.5%	12.9%	22:30
	UK	PPI Output NSA MoM - Dec	0.4%	0.0%	22:30
	UK	PPI Output NSA YoY - Dec	2.9%	2.3%	22:30
	UK	PPI Output Core NSA MoM - Dec	0.2%	0.0%	22:30
	UK	PPI Output Core NSA YoY - Dec	2.2%	2.2%	22:30
	UK	House Price Index YoY - Nov	6.1%	6.9%	22:30
	GE	ZEW Survey Expectations - Jan	18.4	13.8	23:00
	GE	ZEW Survey Current Situation - Jan	65.0	63.5	23:00
	EC	ZEW Survey Expectations - Jan	--	18.1	23:00
18-Jan	US	Empire Manufacturing - Jan	8.5	9.0	02:30
	AU	Westpac Consumer Conf Index - Jan	--	97.3	12:30
	AU	Westpac Consumer Conf SA MoM - Jan	--	-3.9%	12:30
	NZ	Non Resident Bond Holdings - Dec	--	63.6%	15:00
	GE	CPI YoY - Dec F	1.7%	1.7%	20:00
	GE	CPI MoM - Dec F	0.7%	0.7%	20:00
	GE	CPI EU Harmonized MoM - Dec F	1.0%	1.0%	20:00
	GE	CPI EU Harmonized YoY - Dec F	1.7%	1.7%	20:00
	UK	Claimant Count Rate - Dec	2.3%	2.3%	22:30
	UK	Jobless Claims Change - Dec	5.0k	2.4k	22:30
	UK	Average Weekly Earnings 3M/YoY - Nov	2.6%	2.5%	22:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Nov	2.6%	2.6%	22:30
	UK	ILO Unemployment Rate 3Mths - Nov	4.8%	4.8%	22:30
	UK	Employment Change 3M/3M - Nov	-35k	-6k	22:30
	EC	CPI MoM - Dec	0.5%	-0.1%	23:00
	EC	CPI YoY - Dec F	1.1%	0.6%	23:00
	EC	CPI Core YoY - Dec F	0.9%	0.9%	23:00
19-Jan	US	MBA Mortgage Applications - 13-Jan	--	5.8%	01:00
	US	CPI MoM - Dec	0.3%	0.2%	02:30
	US	CPI YoY - Dec	2.1%	1.7%	02:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
19-Jan	US	CPI Ex Food and Energy MoM - Dec	0.2%	0.2%	02:30
	US	CPI Ex Food and Energy YoY - Dec	2.2%	2.1%	02:30
	US	Industrial Production MoM - Dec	0.6%	-0.4%	03:15
	US	Capacity Utilization - Dec	75.4%	75.0%	03:15
	US	NAHB Housing Market Index - Jan	69	70	04:00
	US	Total Net TIC Flows - Nov	--	$18.8B	10:00
	US	Net Long-term TIC Flows - Nov	--	$9.4B	10:00
	NZ	BusinessNZ Manufacturing PMI - Dec	--	54.4	10:30
	NZ	Building Permits MoM - Nov	--	2.6%	10:45
	NZ	ANZ Consumer Confidence Index - Jan	--	124.5	13:00
	NZ	ANZ Consumer Confidence MoM - Jan	--	-2.1%	13:00
	AU	Consumer Inflation Expectation - Jan	--	3.4%	13:00
	UK	RICS House Price Balance - Dec	30%	30%	13:01
	AU	Employment Change - Dec	10.0k	39.1k	13:30
	AU	Unemployment Rate - Dec	5.7%	5.7%	13:30
	AU	Full Time Employment Change - Dec	--	39.3k	13:30
	AU	Part Time Employment Change - Dec	--	-0.2k	13:30
	AU	Participation Rate - Dec	64.6%	64.6%	13:30
	EC	ECB Current Account SA - Nov	--	€28.4B	22:00
	EC	Current Account NSA - Nov	--	€32.8B	22:00
20-Jan	EC	ECB Main Refinancing Rate - Jan	0.00%	0.00%	01:45
	EC	ECB Marginal Lending Facility - Jan	0.25%	0.25%	01:45
	EC	ECB Deposit Facility Rate - Jan	-0.40%	-0.40%	01:45
	EC	ECB Asset Purchase Target - Jan	EU80B	EU80B	01:45
	US	Housing Starts - Dec	1184k	1090k	02:30
	US	Housing Starts MoM - Dec	8.6%	-18.7%	02:30
	US	Building Permits - Dec	1225k	1212k	02:30
	US	Building Permits MoM - Dec	1.1%	-3.8%	02:30
	US	Initial Jobless Claims - 14-Jan	251k	247k	02:30
	US	Continuing Claims - 7-Jan	--	2087k	02:30
	US	Philadelphia Fed Business Outlook - Jan	16.0	19.7	02:30
	AU	HIA New Home Sales MoM - Nov	--	-8.5%	13:00
	CH	GDP YoY - Q4	6.7%	6.7%	15:00
	CH	GDP YTD YoY - Q4	6.7%	6.7%	15:00
	CH	GDP SA QoQ - Q4	1.7%	1.8%	15:00
	CH	Industrial Production YoY - Dec	6.1%	6.2%	15:00
	CH	Industrial Production YTD YoY - Dec	6.0%	6.0%	15:00
	CH	Retail Sales YoY - Dec	10.7%	10.8%	15:00
	CH	Retail Sales YTD YoY - Dec	10.4%	10.4%	15:00
	CH	Fixed Assets Ex Rural YTD YoY - Dec	8.3%	8.3%	15:00
	GE	PPI MoM - Dec	0.4%	0.3%	20:00
	GE	PPI YoY - Dec	1.0%	0.1%	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Dec	-0.4%	0.5%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Dec	7.5%	6.6%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Dec	-0.1%	0.2%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Dec	7.2%	5.9%	22:30

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 17 Jan (9:30am)	REINZ Housing Market Statistics – Dec	Cooler	Momentum has cooled. While we are not expecting outright weak figures, this softer momentum is likely to have persisted.
Tue 17 Jan (10:00am)	NZIER QSBO – Q4	Strong	Strong confidence, decent activity momentum and growing capacity pressures should be the key themes.
Wed 18 Jan (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Thu 19 Jan (10:30am)	BNZ-BusinessNZ PMI – Dec	Solid	While the index is off its highs, it is still pointing to a strong pace of growth, which we expect to persist.
Thu 19 Jan (10:45am)	Building Consents Issued – Nov	Flattening	Positive tailwinds remain, but we do believe that capital and capacity constraints will increasingly cap the upside.
Thu 19 Jan (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jan	--	--
Mon 24 Jan (10:30am)	BNZ-BusinessNZ PSI – Dec	Chugging along	Tighter credit conditions may have an impact, but we expect the services sector to continue to perform well overall.
Thu 26 Jan (10:45am)	CPI – Q4	Back in the band	Headline inflation should return to the RBNZ's target band and we suspect to see more signs of core inflation lifting off lows.
Mon 30 Jan (10:45am)	Overseas Merchandise Trade – Dec	Looking better	Lifting export commodity prices should eventually flow through into an improvement in the trade balance.
Mon 30 Jan (3:00pm)	RBNZ New Residential Mortgage Lending – Dec	Softer	Compositional changes (away from investors towards first-home buyers) are notable, but new lending growth is expected to continue slowing.
Tue 31 Jan (10:45am)	International Travel & Migration – Dec	Strong	There are few signs that net migrant inflows are slowing and we doubt they will any time soon given global themes.
Tue 31 Jan (3:00pm)	RBNZ Credit Aggregates – Dec	Easing	The peak in credit growth has passed as LVR restrictions and altered bank behaviour influence.
Wed 1 Feb (10:45am)	Labour Market Statistics – Q4	Strong	Methodological changes cloud the picture, but the figures should again show strong labour demand and a downward bias in the unemployment rate. The key question is whether stronger wage growth starts to show up.
Thu 2 Feb (10:00am)	ANZ Job Ads – Jan	--	--
Fri 3 Feb (1:00pm)	ANZ Commodity Price Index – Jan	--	--
Tue 7 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Ticking up	With headline inflation lifting off lows, we suspect inflation expectations will tick higher also.
Wed 8 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Wed 8 Feb (10:00am)	ANZ Truckometer – Jan	--	--
Wed 8 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
Thu 9 Feb (9:00am)	RBNZ Monetary Policy Statement	On hold	An implicit mild easing bias may remain, but with the economy largely tracking as expected, the message will be one of policy remaining on hold for the foreseeable future.
Thu 9 Feb (10:45am)	Building Consents Issued – Dec	Flattening	Positive tailwinds remain, but we do believe that capital and capacity constraints will increasingly cap the upside.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	**0.2**	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	**1.1**	**1.4**	**1.4**	**1.7**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.4	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	**5.9**	**5.2**	**3.3**	**2.2**	**1.9**	**1.7**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	**4.8**	**4.8**	**4.7**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**
Current Account (% GDP)	-2.9	**-2.9**	**-3.0**	**-3.2**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-1.9	**0.6**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.5**	**0.0**	**0.0**
Terms of Trade (% yoy)	-2.3	**0.3**	**-2.9**	**0.5**	**3.2**	**3.2**	**2.7**	**2.1**	**1.4**	**0.8**

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Retail ECT (% mom)	0.2	0.8	-0.3	1.2	0.2	-1.2	1.9	0.5	-0.1	-0.1
Retail ECT (% yoy)	6.2	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8
Credit Card Billings (% mom)	-0.8	2.1	0.1	-0.8	2.4	-0.9	2.9	3.0	-4.2	--
Credit Card Billings (% yoy)	5.1	9.0	6.1	4.1	5.6	2.2	8.3	10.1	4.1	--
Car Registrations (% mom)	-3.8	6.8	-4.1	-0.8	-0.1	2.6	-3.9	12.7	3.4	-6.1
Car Registrations (% yoy)	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8
Building Consents (% mom)	-9.4	7.9	-0.5	15.6	-4.4	-2.4	-0.2	2.6	--	--
Building Consents (% yoy)	0.4	13.6	10.2	39.2	7.8	11.7	14.4	14.2	--	--
REINZ House Price Index (% yoy)	13.3	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9	--
Household Lending Growth (% mom)	0.6	0.8	0.7	0.8	0.8	0.8	0.8	0.6	0.6	--
Household Lending Growth (% yoy)	7.7	7.9	8.1	8.3	8.6	8.7	8.8	8.7	8.6	--
ANZ Roy Morgan Consumer Conf.	118.0	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5
ANZ Business Confidence	3.2	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7
ANZ Own Activity Outlook	29.4	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6
Trade Balance ($m)	189	350	343	107	-351	-1240	-1390	-815	-705	--
Trade Bal ($m ann)	52599	52626	52854	52660	52078	51900	51938	51944	51634	--
ANZ World Commodity Price Index (% mom)	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7
ANZ World Comm. Price Index (% yoy)	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5
Net Migration (sa)	5360	5500	5590	5740	5670	5670	6330	6230	6220	--
Net Migration (ann)	67619	68110	68432	69090	69015	69119	69954	70282	70354	--
ANZ Heavy Traffic Index (% mom)	3.3	-2.4	-2.5	5.2	-6.3	7.2	-2.3	-0.4	3.8	-0.1
ANZ Light Traffic Index (% mom)	0.9	0.2	-1.4	2.7	-0.6	-1.6	0.1	-2.1	1.7	0.1

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Nov-16	Dec-16	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.714	0.693	0.712	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.957	0.962	0.951	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.671	0.659	0.671	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	80.72	81.10	81.49	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.574	0.562	0.592	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ$ TWI	77.1	76.1	78.6	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Oct-16	Nov-16	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.04	2.00	2.00	2.00	2.00	2.00	2.00	2.20	2.30	2.50
NZ 10-yr bond	3.13	3.33	3.14	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.93	1.00	1.02	1.13	1.20	1.33	1.45	1.60	1.75	2.00
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.77	1.82	1.78	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	13 Dec	9 Jan	10 Jan	11 Jan	12 Jan	13 Jan
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.04	1.99	1.98	1.99	1.98	1.98
NZGB 03/19	2.18	2.24	2.20	2.21	2.16	2.18
NZGB 05/21	2.55	2.62	2.57	2.57	2.51	2.53
NZGB 04/23	2.85	2.88	2.83	2.83	2.76	2.79
NZGB 04/27	3.29	3.25	3.17	3.18	3.10	3.12
2 year swap	2.31	2.43	2.39	2.41	2.37	2.40
5 year swap	2.90	3.00	2.95	2.97	2.92	2.95
RBNZ TWI	79.16	77.51	77.91	77.44	78.01	78.41
NZD/USD	0.7188	0.6968	0.7004	0.6994	0.7115	0.7131
NZD/AUD	0.9604	0.9524	0.9516	0.9472	0.9487	0.9505
NZD/JPY	82.95	81.56	81.12	81.37	81.25	81.64
NZD/GBP	0.5659	0.5731	0.5763	0.5765	0.5799	0.5854
NZD/EUR	0.6772	0.6625	0.6613	0.6647	0.6688	0.6700
AUD/USD	0.7484	0.7316	0.7360	0.7384	0.7500	0.7502
EUR/USD	1.0615	1.0518	1.0591	1.0522	1.0638	1.0643
USD/JPY	115.40	117.05	115.82	116.34	114.20	114.49
GBP/USD	1.2703	1.2159	1.2154	1.2131	1.2270	1.2182
Oil (US$/bbl)	52.74	53.98	51.95	50.82	52.19	53.01
Gold (US$/oz)	1162.35	1174.93	1186.33	1187.22	1197.86	1193.00
Electricity (Haywards)	4.30	4.60	5.47	5.63	5.64	5.62
Baltic Dry Freight Index	1052	949	926	894	892	910
NZX WMP Futures (US$/t)	3620	3240	3275	3270	3250	3250

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Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz